OASIS energy corporation

1994 Annual Report

Corporate Profile

Oasis Energy Corporation is an oil and gas exploration and development company based in Calgary, Alberta. The Corporation was incorporated on May 11, 1993 under the Business Corporations Act of Alberta. In 1993, the Corporation completed a significant asset purchase, participated in a 50 well drilling program and successfully concluded an exchange offering prospectus to raise $1.7 million. During 1994, the Corporation made a major asset purchase, participated in drilling programs for 109 wells and completed its second public offering for $2.7 million. The Corporation's common shares are listed for trading on The Alberta Stock Exchange under the trading symbol "OEC." The Corporation's objective is to maximize shareholder value through selective asset acquisitions, successful exploration and development programs and prudent management of existing properties.

Annual Meeting

The Annual General Meeting for the shareholders of Oasis Energy Corporation will be held on Wednesday, June 14, 1995 at 3:00 p.m. in the Viking Room of the Calgary Petroleum Club, 319–5th Avenue S.W., Calgary, Alberta.

Contents

Corporate Highlights

	Year ended December 31, 1994	May 11,1993 to Dec. 31, 1993
Financial		
Revenue	$ 622,000	–
Funds from Operations	$ 221,000	–
Per Share	$ 0.01	–
Loss	$(4,062,000)	–
Per Share	$ (0.24)	–
Capital Expenditures	$ 7,743,000	$ 2,471,000
Debt	$ 4,928,000	$ 214,000
Total Assets	$ 6,380,000	$ 2,984,000
Common Shares issued and outstanding	21,589,884	16,300,001
Operating		
Gas Reserves (Bcf)		
Proven	10.2	4.2
Probable (50% risk factor)	.5	–
Total	10.7	4.2
Daily Production		
Gas (Mmcf/d)	1.0	–
Producing Wells		
Gross	328	75
Net	94.5	30.5
Average Sales Price		
Gas ($/Mcf)	$ 1.81	–
Wells Drilled		
Gross	109	50
Net	50	18
Land Holdings		
Gross Acres	158,541	16,000
Net Acres	61,386	7,015

Areas of Interest

The Corporation's activities during the period from the date of incorporation on May 11, 1993 to December 31, 1994 are related solely to the exploration for and development of petroleum and natural gas reserves. The Corporation is at a relatively early stage of development and 1994 was the first year of production.

President's Report to the Shareholders

The year 1994 marked the first full year of operation for Oasis Energy Corporation. The Company followed its business plan and participated in five shallow gas programs which are all on production at a total rate close to 4Mmcf/d.

During the last half of 1994 and on into 1995, natural gas prices dropped significantly. This situation has resulted in decreased cash flows for the industry in general and particularly companies such as Oasis whose revenue was derived entirely from natural gas. As a result of the combination of lower natural gas prices and a modest reduction in anticipated natural gas reserves at December 31, 1994, the Company has taken a $3,900,000 write-down on property and equipment. However, prospects for the natural gas industry remain very positive in the medium to longer term and currently there is a trend to firmer prices. Oasis has a large inventory of proven undeveloped acreage which can be drilled and put on production as natural gas prices reach a more attractive level. There will be industry opportunities which will require an innovative approach to put together attractive natural gas development projects and, in which, Oasis believes it is in a position to participate.

As mentioned in the Company's 1994 Third Quarter Report, Management began focusing on the next step in our business plan. This involved having the Company acquire control of fairly large blocks of acreage which offered both development and exploration opportunities.

After several months of negotiations during 1994, Oasis was successful in acquiring a private oil and gas company in February 1995. This company's principal asset was a contiguous seventeen section block of land near Edmonton (Acheson area). This package contained two producing oil wells and two recently drilled Viking gas wells. Geological and engineering studies indicate the likelihood of several more Viking gas well locations of a development nature together with some proven undeveloped Belly River gas acreage. With indications that the price of natural gas will increase, plans are currently underway to develop the gas project in the near future. This acreage block also offers excellent Devonian oil prospects. In addition to the two producing Devonian oil wells, the acreage block is currently offset by a Devonian oil well with very good rates of production. Oasis is currently conducting a geophysical survey to locate a well adjacent to the offset location. A full scale 3D seismic survey is planned to fully evaluate the Devonian reef trend in the seventeen section block of land.

The second area of interest in acquiring this private oil and gas company centered around the fact that this private company was discussing the possibility of arranging a large farmin in the Grande Prairie area of north western Alberta. Oasis management considered this to be a very attractive opportunity and became very involved in the finalization of the farmin which we anticipate will close shortly. During the past few months several oil/gas discoveries have occurred in the general area with the closest being an indicated oil discovery a half mile west of this farmin area. Further geological and geophysical investigation is currently taking place.

The Company has now moved into the next step of our original business plan. The two newly acquired properties provide the Company with development drilling opportunities for both oil and gas on the property near Edmonton and early indications are very favorable for the presence of oil/gas in the Grande Prairie property which contains over 25000 acres.

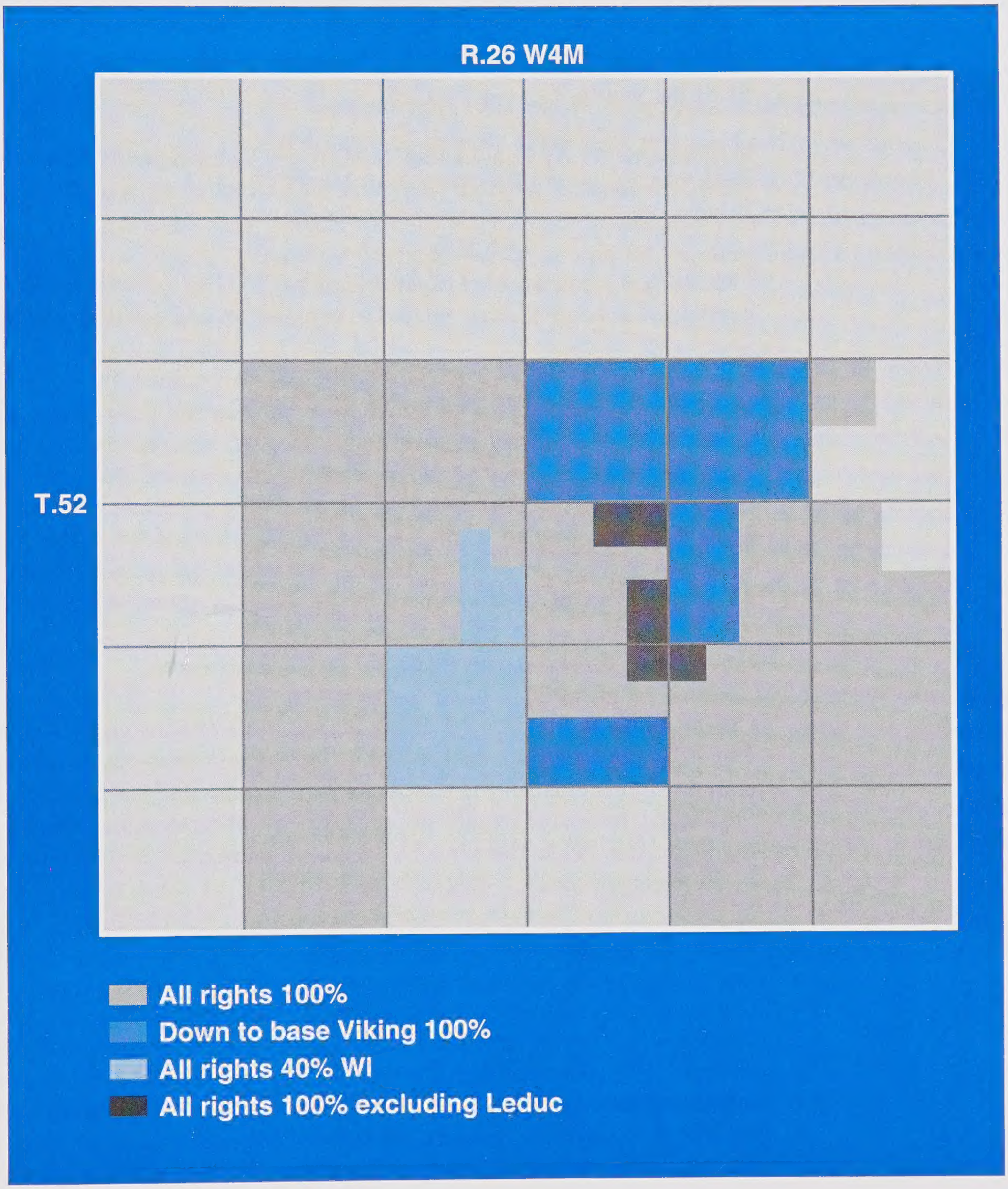
Once again we appreciate the support of all the shareholders. Oasis has now put together a solid base with sufficient diversification for growth and increased cash flow and shareholder value.

On behalf of the Board of Directors,

Donald S. Irvine
President and Chief Executive Officer

May 15, 1995

Acheson Area, Alberta



Financial Review by Management

Gross revenue from gas sales amounted to $657,580 and the Burstall property was the main source for such revenues. The Corporation's major property, Liebenthal, did not commence full production until February, 1995. For 1994, daily gas production averaged 998 mcf/d at an average sales price of $1.81 per mcf.

Royalties, net of ARC, amounted to $0.10 per mcf and production expenses of $224,384 equated to $0.62 per mcf. This resulted in a netback price of $1.09 per mcf.

General and administrative expenses totalled $171,524 of which $67,162, was capitalized as being directly related to exploration and development activity.

The write-down taken of $3,900,000 was determined by a ceiling test computed in accordance with accepted accounting and industry practice. The Corporation is of the view that a substantial portion of this deficiency resulted from the fact that acquisition/development costs were determined using gas prices which were higher than the corresponding gas prices used in the year-end ceiling test. Management does not consider this portion of the deficiency, which is due to the current decline in natural gas prices, to necessarily represent a permanent impairment in the ultimate recoverable amount.

Funds from operations were $220,523 or $0.01 per share.

Capital expenditures during 1994 amounted to $7,743,161 and were funded by $4,000,000 of long-term debt, $2,883,238 in equity financing and by internal cash flow. This enabled the Corporation to acquire and partially develop the Liebenthal property, acquire an approximate 10% working interest in the Medicine Hat Hilda Gas Unit No. 2 and to participate in a drilling program in the Freefight area.

In late 1994, Oasis received a $4,000,000 term loan from Enron Capital and Trade Resources Canada Corp. to specifically finance much of the Corporation's share of the capital costs of the Liebenthal drilling program. This loan is presently scheduled to be repaid over a five year period, however, in April 1995, Enron Capital agreed to a partial restructuring whereby the scheduled principal repayment for 1995 was reduced. Management expects to be able to renegotiate the repayment terms beyond 1995 to be more in line with the estimated future net cash flows from the Liebenthal property.

In October, 1994, the Corporation successfully concluded its second public offering to raise $2.7 million.

Auditors' Report

To the Shareholders of Oasis Energy Corporation:

We have audited the consolidated balance sheets of Oasis Energy Corporation as at December 31, 1994 and 1993 and the consolidated statements of income and deficit and changes in financial position for the year ended December 31, 1994 and from incorporation on May 11, 1993 to December 31, 1993. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the year ended December 31, 1994 and from incorporation on May 11, 1993 to December 31, 1993 in accordance with generally accepted accounting principles.

Arthur Andersen & Co.

Calgary, Alberta,
April 17, 1995

Chartered Accountants

Consolidated Balance Sheets

December 31,	1994	1993
ASSETS (note 2)		
Current assets:		
Accounts receivable	$ 336,888	167,014
Capital advance receivable	44,203	345,578
Prepaid expense	30,165	–
	411,256	512,592
Property and equipment (notes 4, 5 & 8)	5,969,219	2,471,058
	$ 6,380,475	2,983,650
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness (note 5)	$ 927,903	213,641
Accounts payable	227,342	201,040
Current portion of long-term debt	750,000	–
Note payable (note 7)	–	202,500
	1,905,245	617,181
Long-term debt (note 8)	3,250,000	–
Site restoration	38,000	–
Commitments (notes 11 & 12)		
Shareholders' equity:		
Share capital (note 9)		
Authorized		
Unlimited common shares		
Unlimited preferred shares		
Issued and outstanding		
Common shares	5,249,707	2,366,469
Deficit	(4,062,477)	–
	1,187,230	2,366,469
	$ 6,380,475	2,983,650

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Donald S. Irvine, Director

Mark Cutten, Director

Consolidated Statement of Income and Deficit

	Year ended December 31, 1994
Revenue:	
Gas sales	$ 657,580
Royalties, net	(35,966)
	621,614
Expenses:	
Production	224,384
General and administrative (note 4)	104,362
Interest (notes 4, 5, 7 & 8)	72,345
Depletion and depreciation (note 4)	383,000
Write-down of property and equipment	3,900,000
	4,684,091
Loss and deficit (notes 6 & 10)	$ (4,062,477)

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

	Year ended December 31, 1994	May 11, 1993 to Dec. 31, 1993 (note 1)
Cash provided by (used in):		
Operating activities:		
Loss	$(4,062,477)	–
Items not involving cash:		
Depletion and depreciation	383,000	–
Write-down of property and equipment	3,900,000	–
Funds from operations	220,523	–
Change in non-cash working capital	566,086	–
	786,609	–
Financing activities:		
Issue of common shares	2,883,238	2,366,469
Long-term debt	3,250,000	–
	6,133,238	2,366,469
Investing activities:		
Acquisition of property and equipment	(7,743,161)	(2,471,058)
Change in non-cash working capital	109,052	(109,052)
	(7,634,109)	(2,580,110)
Increase in bank indebtedness	(714,262)	(213,641)
Bank indebtedness, beginning of period	(213,641)	–
Bank indebtedness, end of period	$ (927,903)	(213,641)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1994 and 1993

1. Incorporation

The Corporation was incorporated under the laws of the Province of Alberta on May 11, 1993. The Corporation's business is the acquisition of petroleum and natural gas rights and the exploration for and development and production of crude oil and natural gas. All activity is conducted in the Provinces of Alberta and Saskatchewan.

The consolidated financial statements include the accounts of Oasis Energy Corporation and its wholly-owned subsidiary, 578381 Alberta Ltd.

2. Future Operations

The Corporation's activities during the period from the date of commencement of operations on October 28, 1993 to December 31, 1994 are related solely to the exploration for and development of petroleum and natural gas reserves. The ultimate recovery of the Corporation's investment in property and equipment is dependent upon the exploration for and development of petroleum substances in commercial quantities. The Corporation is at a relatively early stage of development and the first major property commenced production in late December, 1993. Accordingly, prior to January 1, 1994, all costs net of revenues were capitalized and the December 31, 1993 financial statements do not include statements of income and retained earnings.

During 1994, the Corporation recorded a $3,900,000 write-down to property and equipment, to the ceiling limitation amount, resulting in a loss and deficit of $4,062,477. At December 31, 1994, the Corporation has a working capital deficiency of $1,493,989. The Corporation requires the continued financial support of its lenders and additional financing in order to fund its existing obligations, ongoing development programs and the commitments described in notes 11 & 12. Management intends to raise the required financing through a combination of one or more of cash flow, bank financing, farm-outs and debt restructuring.

3. Summary of Significant Accounting Policies

Property and Equipment

The Corporation follows the full cost method of accounting for petroleum and natural gas properties. Under this method all costs related to the acquisition of, exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenditures, rentals and other carrying charges on undeveloped properties, costs of drilling both productive and non-productive wells, oil and gas production equipment and facilities and the portion of administrative expenses directly related to acquisition, exploration and development activities.

These capitalized costs, plus provision for future development costs of proved undeveloped reserves, are depleted using the unit-of-production method which is based upon production volumes in relation to the total estimated proved reserve volumes, before royalties. These estimated gross proved reserves are determined by an independent petroleum engineering firm. Natural gas reserves and production are converted to equivalent barrels of crude oil based on relative energy content.

Costs of acquiring and evaluating unproved properties are initially excluded from the depletion calculation. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

Proceeds from the sale of oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale represents a major disposition of reserves and would significantly alter the rate of depletion.

Substantially all of the Corporation's exploration, development and production activities related to oil and gas operations are conducted jointly with others and accordingly the accounts reflect only the Corporation's proportionate interest in such activities.

In applying the full cost method, the total capitalized costs, less accumulated depletion and depreciation, site restoration and deferred income taxes are limited to an amount equal to estimated future net revenue from proved reserves plus the cost (net of impairments) of unproved properties less estimated general and administrative expenses, financing costs, income taxes and future abandonment and site restoration costs. Future net revenue is estimated based upon constant prices, and using oil and gas prices at the period end date. Any reduction in value, as a result of this ceiling test, is charged to operations.

Estimated site restoration costs are provided for over the life of the proved reserves on the unit-of-production method based on the estimated gross proved reserves. Costs are estimated by an independent petroleum engineering firm in accordance with current regulations, costs, technology and industry standards. The annual charge is included in depletion and depreciation expense and actual site restoration expenditures are charged to the accumulated provision account as incurred.

Income Taxes

The Corporation uses the deferral method of income tax allocation. Income taxes are provided at current rates for all items included in the statement of income regardless of the period when such items are reported for income tax purposes. The principal items which result in timing differences for financial and income tax reporting purposes arise from claiming capital cost allowance and exploration and development expenses in excess of depletion and depreciation expense.

4. Property and Equipment

	1994	1993
Petroleum and natural gas properties and equipment	$ 10,214,219	2,471,058
Accumulated depletion and depreciation	(4,245,000)	–
	$ 5,969,219	2,471,058

During the year ended December 31, 1994, the Corporation capitalized interest and overhead charges directly related to acquisition, exploration and development activities of $205,741 (December 31, 1993–$13,192).

As at December 31, 1994, property and equipment include unproved properties and a major development project of $5,730,249 which have been excluded from costs subject to depletion and depreciation.

As at December 31, 1994, property and equipment with a net book value of approximately $188,730 has no cost basis for income tax purposes (December 31, 1993–$320,000).

5. Bank Indebtedness

As at December 31, 1994, the Corporation has a revolving production loan in place with a major Canadian bank for up to $1,230,000 (December 31, 1993–$250,000). The interest rate on this loan arrangement is based on prime plus 1¼%.

The Corporation's bank credit facility is secured by a general security agreement and a demand debenture in the amount of $5,000,000 conveying a first fixed charge on certain oil and gas properties and a first floating charge on various other oil and gas properties.

This production loan is payable on demand and is subject to an annual review. Notwithstanding the current annual review in progress, this credit facility is to reduce $30,000 at the end of each month.

6. Income Taxes

The income tax provision (recovery) is calculated by applying Canadian federal and provincial statutory tax rates to pre-tax income with adjustments as set out in the following table:

	1994
Expected income tax provision (recovery) at 44%	$(1,787,489)
Non-deductible depletion and write-down	59,055
Non-deductible royalties and taxes	15,652
Resource allowance	(27,160)
Accounting losses not recognized	1,739,942
	$ –

The Corporation has loss carry-forwards for tax purposes of approximately $56,500 (1993–$61,900) with an expiry date of 2000.

7. Related Party Transactions and Note Payable

In November 1993, the Corporation acquired all of the common shares of 578381 Alberta Ltd. for $400,000 from an officer and director of the Corporation. All of the purchase price was allocated to property and equipment. 578381 Alberta Ltd. owns a 50% interest in petroleum and natural gas rights in the North Hilda area of eastern Alberta. This purchase price represented the fair market value and approximated the independent acquisition of the other 50% interest in the same property by a third party.

This acquisition was financed by the issue of 2,050,000 common shares of the Corporation valued at $197,500 and a note payable in the amount of $202,500. In November 1994, $102,500 owing under the note was paid and the remaining $100,000 (note 9) was converted into common shares of the Corporation effective October 31, 1994 at a price of $0.60 per share. Interest on the note was $13,039 (1993–$2,662).

8. Long-Term Debt

In November 1994, the Corporation received a term loan in the amount of $4,000,000 from Enron Capital and Trade Resources Canada Corp. (Enron Capital) to finance a portion of the Corporation's share of the capital costs of the drilling program on the Liebenthal property.

This loan bears interest at prime plus 1% and administration fees of 2% annually on the outstanding principal balance of the loan and amounted to $53,438 in 1994.

This loan arrangement also provides Enron Capital with an overriding royalty interest in certain lands ranging from 4% to 15% depending on the date of repayment of the loan.

This loan is secured solely by the Liebenthal property through a pledge agreement and a demand debenture in the amount of $50,000,000.

Originally, Enron Capital was to retain 90% of the monthly net revenues from the Liebenthal property to apply first to interest and fees and the remaining portion to principal. The loan is required to be repaid in full by October 31, 1999 with maximum principal balances stipulated throughout the repayment period.

The original principal repayment schedule is as follows:

1995	$ 975,000
1996	1,000,000
1997	800,000
1998	825,000
1999	400,000
	$4,000,000

In April 1995, Enron Capital agreed to a partial restructuring whereby the scheduled principal repayment for 1995 was reduced and certain financial covenant ratios were waived. Enron Capital will receive 100% of the monthly net cash flows from the Liebenthal property to be applied to interest and principal repayment. Management expects to be able to renegotiate the repayment terms beyond 1995 to be more in line with the estimated future net cash flows from the Liebenthal property.

9. Share Capital

Issued and outstanding common shares	Number of shares	Amount
To founders for cash	6,750,001	$ 472,500
For property and equipment	2,050,000	197,500
Initial public offering for cash	7,500,000	1,875,000
Share issue expenses		(178,531)
Balance, December 31, 1993	16,300,001	2,366,469
For property and equipment	123,216	43,126
Public offering for cash	5,000,000	3,000,000
Conversion of note payable	166,667	100,000
Share issue expenses		(259,888)
Balance, December 31, 1994	21,589,884	$ 5,249,707

The Corporation has granted options to officers, directors and a consultant to purchase 1,320,000 common shares at a price of $0.25 per share. The options are exercisable from time to time to December, 1998.

10. Loss and Funds from Operations per Common Share

	1994	
	Basic	Fully Diluted
Loss per share	$ 0.24	$ 0.24
Funds from operations per share	$ 0.01	$ 0.01

Weighted average number of common shares outstanding was 17,256,958.

11. Commitments

Operating lease commitments are as follows:

1995	$ 40,698
1996	55,044
1997	60,894
1998	59,328
1999	57,468
2000	9,578
	$ 283,010

12. Subsequent Event

On February 28, 1995, the Corporation acquired all of the issued and outstanding shares of a privately owned corporation which owns petroleum and natural gas leases. As consideration, the Corporation issued a total of 2,100,000 common shares to the shareholders of the private corporation and assumed approximately $237,000 of liabilities.

Corporate Information

Directors

John F. Curran, Q.C.
Partner
Bennett Jones Verchere
Calgary, Alberta

Mark S. Cutten*
Treasurer and
Chief Financial Officer
Oasis Energy Corporation
Calgary, Alberta

Donald S. Irvine
President and
Chief Executive Officer
Oasis Energy Corporation
Calgary, Alberta

Wayne R. Sharp*
President
Ramarro Resources Inc.
Calgary, Alberta

Jianshe (James) Wang*
President
CNPC Canada Ltd.
Calgary, Alberta

*Audit Committee Member

Officers

Donald S. Irvine
President and
Chief Executive Officer

Mark S. Cutten
Treasurer and
Chief Financial Officer

John F. Curran, Q.C.
General Counsel

John H. Kousinioris
Corporate Secretary

Head Office

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Auditors

Arthur Andersen & Co.
Calgary, Alberta

Legal Counsel

Bennett Jones Verchere
Calgary, Alberta

Engineering Consultants

Sproule Associates Limited
Calgary, Alberta

Bankers

Canadian Imperial
Bank of Commerce
Calgary, Alberta

Registrar and Transfer Agent

Montreal Trust
Calgary, Alberta

Stock Exchange Listing

The Alberta Stock Exchange
Trading Symbol: OEC

Abbreviations and Terms

Gross	Number of wells in which the company has an interest
Net	The aggregate number of wells = gross wells x % working interest
bbls/d	Barrels per day
mcf/d	Thousands of cubic feet per day
mmcf/d	Millions of cubic feet per day
bcf	One billion cubic feet
BOE	Barrel of oil equivalent (gas converted to a BOE at ten mcf to one barrel)
NGL	Natural Gas Liquids
Reserves	Reserve and production amounts are before deduction of royalties

OASIS
energy corporation

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